

Message Text

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PAGE 01 MONTRE 00381 01 OF 02 102248Z
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INFO AMEMBASSY OTTAWA
AMCONSUL QUEBEC
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LIMITED OFFICIAL USE SECTION 1 OF 2 MONTREAL 381

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SUBJ: QUEBEC FINANCE

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BEGIN SUMMARY: PROVINCE OF QUEBEC HAS PLACED \$125 MILLION IN LONG TERM BONDS WITH CAISSE DE DEPOT, THEREBY COMPLETING BULK OF ITS FINANCING NEEDS FOR CURRENT FISCAL YEAR. TEST OF US LONG TERM MARKET BY HYDRO-QUEBEC WILL PROBABLY OCCUR LATER THIS SPRING, AFTER RELEASE OF KIDDER PEABODY STUDY ON HYDRO-QUEBEC, PUBLICATION OF HYDRO FINANCIAL STATEMENT, AND ANNOUNCEMENT OF PROVINCIAL BUDGET, ALL OF WHICH ARE EXPECTED TO INCREASE INVESTOR CONFIDENCE IN QUEBEC. RESULTS OF MOODY'S REVIEW OF QUEBEC'S FINANCIAL RATINGS WILL BE RELEASED SHORTLY. NO DECISION HAS YET BEEN MADE BY HYDRO-QUEBEC ON MAGNITUDE OF ITS FINANCING OPERATIONS IN 1977, WHICH COULD RANGE FROM \$750 MILLION TO \$1.4 BILLION, DEPENDING LARGELY ON MARKET CONDITIONS. IN ITS FINANCIAL PLANNING, HYDRO-QUEBEC IS OPERATING ON ASSUMPTION THAT CAPITAL EXPENDITURES ON JAMES BAY PROJECT WILL NOT BE MODIFIED. END SUMMARY.

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PAGE 02 MONTRE 00381 01 OF 02 102248Z

1. ON MARCH 7, PROVINCE OF QUEBEC COMPLETED ITS SECOND FINANCING OPERATION WITHIN PERIOD OF ONE WEEK, AS \$125 MILLION IN BONDS WERE PLACED WITH QUEBEC'S CAISSE DE DEPOT, THE ADMINISTRATOR OF QUEBEC'S PROVINCIAL PENSION FUNDS. THE BONDS, PRICED AT PAR, CARRY COUPON RATE OF 9.75 O/O, AND MATURE IN 2001, WITH REDEMPTION OPTION ON PART OF HOLDER BEGINNING IN 1991.

2. WHILE PRECISE FIGURES ARE NOT AVAILABLE, PROVINCE MAY NOW HAVE COMPLETED ITS FINANCING OPERATIONS FOR CURRENT FISCAL YEAR, ENDING MARCH 31. FOLLOWING \$175 MILLION BOND ISSUE LAST WEEK, IT WAS ESTIMATED THAT PROVINCE STILL HAD ABOUT \$150 MILLION LEFT TO FINANCE. ANY FINANCING STILL LEFT TO BE DONE AFTER CURRENT \$125 MILLION ISSUE WOULD THEREFORE BE SMALL, AND COULD EASILY BE PLACED WITHIN QUEBEC.

3. WITH AN ANNUAL FLOW OF OVER \$1 BILLION, THE CAISSE IS A FREQUENT SOURCE OF FINANCING FOR THE PROVINCE, HOLDING ABOUT HALF OF ITS \$4.5 BILLION PORTFOLIO IN PROVINCIAL DEBT. WHILE THE CAISSE DE DEPOT IS AN AUTONOMOUS INSTITUTION, IT WORKS CLOSELY WITH THE PROVINCE'S MINISTRY OF FINANCE, WHICH IS KNOWN TO HAVE CONSIDERABLE INFLUENCE WITHIN THE CAISSE.

4. CURRENT FISCAL YEAR WILL THUS CLOSE WITHOUT ANY REAL TEST OF LONG TERM CAPITAL MARKET BY THE PROVINCE SINCE PQ ELECTION IN NOVEMBER. FINANCIAL COMMUNITY HAS LOOKED TO HYDRO QUEBEC TO PROVIDE FIRST REAL TEST, BUT HYDRO, SITTING ON \$1 BILLION CASH BALANCE, HAS OPTED TO STAY OUT OF MARKETS UNTIL IT THINKS CONDITIONS ARE BETTER FOR MORE FAVORABLE RECEPTION. BEST BET IS THAT HYDRO WILL NOT GO TO US MARKET BEFORE LATE APRIL OR MAY. BY THEN, THREE EVENTS WILL HAVE HAPPENED WHICH SHOULD FACILITATE HYDRO'S ACCESS. FIRST, KIDDER PEABODY HAS PREPARED 150 PAGE REPORT ON HYDRO-QUEBEC WHICH WILL BE RELEASED WITHIN SEVERAL DAYS. REPORT COMPARES HYDRO-QUEBEC TO THE FOUR AAA RATED UTILITIES IN US AND FINDS - LEAVING ASIDE POLITICAL CONSIDERATIONS - THAT HYDRO-QUEBEC OUTPERFORMS THESE UTILITIES
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PAGE 03 MONTRE 00381 01 OF 02 102248Z

IN ALL IMPORTANT RESPECTS. SECOND, HYDRO-QUEBEC'S FINANCIAL STATEMENT WILL BE RELEASED IN APRIL, AND WILL SHOW NET INCOME OF ABOUT \$315 MILLION, AN INCREASE OF 33 O/O OVER NET INCOME OF \$230 MILLION IN 1975. (BY WAY OF CONTRAST, BOTH BC HYDRO AND ONTARIO HYDRO, OPERATING UNDER RATING POLICIES LESS FAVORABLE THAN THAT OF HYDRO-QUEBEC, OPERATED AT A LOSS IN 1975). FINALLY, PROVINCIAL BUDGET WILL BE ANNOUNCED IN APRIL. WHILE HYDRO OFFICIALS DO NOT KNOW WHAT SHAPE FINAL BUDGET WILL TAKE, THEY SAY PARIZEAU IS CUTTING EXPENDITURES WHEREVER POSSIBLE, AND THEY EXPECT BUDGET WILL RECEIVE FAVORABLE REACTION FROM THOSE CONCERNED ABOUT PQ'S ABILITIES TO FACE ITS FISCAL RESPONSIBILITIES.

5. IN THIS CONNECTION, MOODY'S EXECUTIVE VICE PRESIDENT JACKSON PHILLIPS, WHO HANDLES CANADIAN RATINGS, HAS JUST COMPLETED TRIP TO QUEBEC, WHERE HE MET WITH FINANCE MINISTER PARIZEAU AND OTHER OFFICIALS OF PROVINCIAL GOVERNMENT. HE TOLD CONSULATE THAT PARIZEAU APPEARED WELL AWARE OF NEED TO ESTABLISH FINANCIAL CONFIDENCE AND THAT HE EXPECTED PARIZEAU'S BUDGET TO BE ON CON-

SERVATIVE SIDE. PURPOSE OF PHILLIP'S TRIP WAS TO COMPLETE REVIEW WHICH MOODY'S HAS UNDERTAKEN OF QUEBEC'S RATINGS. RESULTS OF REVIEW WILL BE ANNOUNCED WITHIN NEXT SEVERAL DAYS. BASED ON PHILLIP'S COMMENTS, IT APPEARS LIKELY THAT BOTH PROVINCE AND HYDRO-QUEBEC WILL RETAIN AA RATINGS. ALSO, HYDRO-QUEBEC WILL GET AN ADDITIONAL BOOST FROM RELEASE OF KIDDER PEABODY STUDY, WHICH SHOULD SERVE TO REINFORCE ITS DOUBLE A RATING.

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PAGE 01 MONTRE 00381 02 OF 02 102251Z
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LIMITED OFFICIAL USE SECTION 2 OF 2 MONTREAL 381

6. HYDRO-QUEBEC HAS NOT YET MADE POLICY DECISION ON MAGNITUDE OF ITS EXTERNAL FINANCING OPERATION IN 1977; MUCH WILL DEPEND ON RECEPTIVITY OF MARKET IT ENCOUNTERS LATER THIS SPRING. HYDRO'S TOTAL FINANCIAL NEEDS IN 1977 WILL APPROXIMATE \$2,170 MILLION, OF WHICH \$470 MILLION WILL BE GENERATED INTERNALLY, LEAVING BALANCE OF \$1,700 MILLION. HOWEVER, HYDRO FOUND CAPITAL MARKETS SO FAVORABLE IN 1976 THAT IT BORROWED \$1,750 MILLION, INSTEAD OF \$1.2 BILLION IT HAD PROJECTED. AS RESULT, INSTEAD OF ENDING UP 1976 WITH CASH AND SHORT TERM INVESTMENTS OF BETWEEN \$400-500 MILLION, THE ORIGINAL TARGET, HYDRO ENDED UP WITH \$1.1 BILLION IN CASH AND SHORT TERM INVESTMENTS. THUS, HYDRO HAS MARGIN OF OVER HALF A BILLION DOLLARS WITH WHICH IT CAN PLAY IN 1977, DEPENDING ON RECEPTIVITY OF MARKET AND CASH BALANCE IT WOULD LIKE TO HOLD AT END OF 1977. IF CASH BALANCE AT END OF 1977 IS HELD TO \$150 MILLION, TOTAL FINANCING NEEDS DURING YEAR WOULD APPROXIMATE \$750 MILLION. IF, ON OTHER HAND, HYDRO FINDS MARKET RECEPTIVE AND SHOOTS FOR CASH BALANCE OF AROUND \$800 MILLION, BORROWINGS COULD APPROACH \$1.4 BILLION. OVER LONGER TERM, HYDRO OFFICIALS STATE THAT DESPITE REPORTS TO CONTRARY

THEY ARE UNAWARE OF ANY PRESENT PLANS TO SCALE DOWN CAPITAL
EXPENDITURES FOR JAMES BAY PROJECT, CURRENTLY PROJECTED AT
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PAGE 02 MONTRE 00381 02 OF 02 102251Z

ABOUT \$8.5 BILLION OVER NEXT FOUR YEARS. THEY REPORT THAT
MINISTER OF ENERGY GUY JORON HAS HAD A CHANGE OF HEART AND
NOW SUPPORTS JAMES BAY, WHICH HE PREVIOUSLY OPPOSED, AND
OPPOSES NUCLEAR DEVELOPMENT, WHICH HE PREVIOUSLY SUPPORTED.
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